

Message Text

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E.O. 11652: N/A

TAGS: EAIR, UK

SUBJ: HAWKER-SIDDELEY STOPS WORK ON HS-146 AIRCRAFT
PROJECT

REF: (A) LONDON 12109; (B) LONDON A-684

1. HAWKER-SIDDELEY ANNOUNCED OCTOBER 16 THAT IT IS STOPPING WORK ON THE HS-146 SHORT-HAUL AIRCRAFT WHICH IS DESIGNED TO BE POWERED BY FOUR US-BUILT AVCO-LYCOMING ENGINES. MANUFACTURER CLAIMED THAT FUEL COST AND OTHER INFLATIONARY PRICE INCREASES HAD ERODED MARKET POTENTIAL AND MADE THE PROJECT COMMERCIALY UNVIALE. THUS FAR AN ESTIMATED EIGHT MILLION POUNDS HAS BEEN SPENT ON THE PROJECT, THE TOTAL COST OF WHICH WAS ORIGINALLY FORECAST TO BE 92 MILLION POUNDS SHARED EQUALLY BY HS AND THE UK GOVERNMENT. THE UKG HAS NOT YET RESPONDED TO HAWKER'S ANNOUNCEMENT.

2. REFS A AND B REPORTED THAT THE FUTURE OF HS-146 WAS UNDER REVIEW AND THAT THERE WAS STRONG LIKLIHOOD THAT HAWKER WOULD ATTEMPT TO WITHDRAW FROM THE PROGRAM UNILATERALLY UNLESS UKG AGREED TO RENEGOTIATE TERMS OF FUNDING ARRANGEMENTS WHICH FIXED GOVERNMENT'S FINANCIAL COMMITMENT AT 46 MILLION POUNDS (AT 1972 PRICE LEVELS) AND PROVIDED THAT HAWKER PAY FOR ANY COST OVERRUNS THAT

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MIGHT OCCUR. DISCUSSIONS BETWEEN HAWKER AND UKG HAVE BEEN

GOING ON FOR SOME TIME OVER WHETHER HAWKER'S PESSIMISTIC ASSESSMENT OF FUTURE OF HS-146 IS JUSTIFIED AND, IF SO, WHAT SHOULD HAPPEN TO THE PROJECT. CLEARLY, NO DECISIONS COULD BE TAKEN IN PRE-ELECTION PERIOD BUT HAWKER WASTED NO TIME ONCE OCT. 10 ELECTION SHOWED LABOR GOVERNMENT RETURNED TO POWER WITH SMALL MAJORITY. WE UNDERSTAND THAT HAWKER DELIVERED LETTER TO DEPARTMENT OF INDUSTRY ON OCT. 14 GIVING NEW GOVERNMENT ONE WEEK TO AGREE TO RE-NEGOTIATE FUNDING AGREEMENT. IT WAS WHEN NEWS OF THIS "ULTIMATUM" LEAKED TO PRESS THAT HAWKER WAS FORCED TO ANNOUNCE TO EMPLOYEES AND SUBCONTRACTORS THAT WORK ON HS-146 TO BE STOPPED.

3. WE DISCUSSED HAWKER ANNOUNCEMENT WITH AVCO-LYCOMING'S UK REPRESENTATIVE. HE SAID HIS COMPANY HAD NOT HAD ADVANCE NOTICE FROM HAWKER EXCEPT FOR INDICATION SOME TIME AGO THAT FUTURE OF HS-146 UNDER REVIEW. AVCO'S CONTRACT WITH HAWKER PROVIDES FOR CANCELLATION CHARGES SO, IN SHORT TERM AT LEAST, AVCO WILL NOT LOSE MONEY IF PROJECT CANCELLED BUT, OF COURSE, MEDIUM AND LONG TERM LOSS OF ENGINE SALES IS BIG BLOW TO COMPANY, PARTICULARLY SINCE DEAL TO PUT SAME ENGINE ON DASSAULT FALCON JET ALSO MAY FALL THROUGH. AVCO OFFICIALS FROM US WILL BE TALKING WITH HAWKER ON FRIDAY AND WE WILL REPORT ANY FURTHER DETAILS WE LEARN FROM THEM.

4. COMMENT: WHILE IT IS CLEAR THAT THERE IS VALIDITY TO HAWKER'S CONTENTION THAT AVIATION FUEL PRICE INCREASES AND SPIRALING MANUFACTURING COSTS IN THE AEROSPACE INDUSTRY HAVE DAMPENED CONSIDERABLY WHAT HAD PREVIOUSLY BEEN JUDGED TO BE VERY GOOD SALES PROSPECTS FOR THE HS-146 FEEDER-LINER, IT IS EQUALLY CLEAR THAT ANOTHER IMPORTANT CONSIDERATION IN HAWKER'S DECISION TO THREATEN TERMINATION OF THE PROJECT IS THE UNCERTAINTY FACING THE COMPANY IN LIGHT OF THE LABOR PARTY'S POSITION WITH REGARD TO NATIONALIZATION OF THE AIRCRAFT INDUSTRY. HAWKER, WHICH IS A LARGE AND DIVERSIFIED GROUP OF COMPANIES, MUST SURELY BE QUESTIONING THE EXPENDITURE OF A LARGE AMOUNT OF SCARCE SEED CAPITAL ON A HIGH-RISK PROJECT IN AN INDUSTRY WHICH MAY END UP BEING TAKEN OVER BY GOVERNMENT LIMITED OFFICIAL USE

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